



NEWS RELEASE

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Pension provision is likely to weaken still further as economic hardship takes its toll. A radical agenda will be needed to persuade employers and employees that pension saving is worthwhile...

ACA CHAIRMAN CALLS ON GOVERNMENT TO FREE UP PENSION CHOICES FOR EMPLOYERS AND TO THINK AGAIN OVER WAYS TO INCENTIVISE PENSION TAKE-UP...

27 November 2008: The Government must act in the coming year with urgency following its consultation paper on *Pension Risk Sharing* and open up new cost-effective pension approaches to enable employers to continue to offer quality pension schemes in a harsh economic climate said Keith Barton, Chairman of the Association of Consulting Actuaries (ACA), speaking at the Association's Annual Dinner, where Chris Grayling MP, Shadow Secretary of State for Work & Pensions, was guest-of-honour. He said he doubted that the personal account reforms were sufficient to grow extra pension coverage in the way the Government hoped – new financial incentives for employers and individuals were now needed.

Keith Barton, ACA Chairman, said:

“We must remember that personal accounts, although a welcome step in helping many individuals to save with their employer's help, should be seen as the pension scheme of last resort for those employees unable to access better arrangements. We must be on guard to ensure that they do not become the scheme of choice for employers and employees and lead to a levelling down from good existing arrangements. Indeed, our ACA 2008 Smaller Firms Pension survey found 31% of smaller firms might be tempted to reduce benefits or abandon existing pension schemes as a result of Personal Accounts – and this was before the fallout from the credit crisis had got started.

“The objective of adding between 4 to 7 million new pension savers is laudable and is to be encouraged, but the reality is that the levels of retirement income which personal accounts will provide are unlikely to lead to a prosperous retirement for the majority of members. This might therefore lead to some disillusionment and opt-outs even where there are no better alternatives.

Introducing personal accounts against a likely backcloth of rising taxes also seems just about the worse time to ensure a decent take-up.

“The reality is that good employer sponsored pensions schemes are the best way for employees to save for retirement. My hope is that the current economic situation will bring about this realisation and acceptance that different thinking from that which led us into the current situation is needed to take us away from it.

“A pre requisite for innovation is the right regulatory environment. The ACA has been advocating over these last 3 years that pension legislation should be updated to permit new risk sharing pension design options, rather than frustrate their development. Eventually, this summer, alongside the efforts of others, we achieved a consultation paper on that very topic in response to amendments we proposed to this year’s Pensions Bill. But – alas – we still await the outcome.

“That delay means the opportunity for reform has been lost this year and, increasingly, we wonder about next year too.

“Unless legal changes are made soon, the vast majority – thousands of pages of pension legislation and regulation – will be relevant to an increasingly small number of private sector pension schemes covering fewer than 10% of the workforce. One cannot help feeling that much of our pension energy now seems more about managing the slow death of quality schemes. It is not about building a framework to promote the growth of new quality schemes. That is not far short of a disgrace.

“I would hope over the next year employer, trade and pension bodies could come together to do more to say to Government that this approach cannot be allowed to continue. If it does, quite quickly the incidence of means testing is likely to increase, not decrease, with all the disincentives to save at lower incomes magnified.”

Keith Barton’s speech moved on to address what was now needed to promote quality pension provision above the basic minimum.

“First, we need to legislate quickly to allow new workplace pension designs to be implemented. That framework needs to be in place so employers have choices. That will allow some employers who are going to close existing final salary arrangements, come what may, to move to less costly, but still high quality, provision they can afford into the future. Risks would be shared rather than falling completely on individuals often ill-equipped to deal with such matters. These types of schemes could equally apply to public sector employees – and what a great signal this would give

to private sector employers – rather than replacing gold plated public sector final salary schemes with simply defined contribution schemes.

“Second, and I think this is a big ask. More private sector employers need to be convinced, and here all of us have a part to play, that sponsoring a better than minimum standard pension scheme is good all round – good for employees and their families, good for employee relations, good for the business and good for society over the longer-term. This is a mission where all of us can join together, even if we have differences over the detail of what future provision we favour.

“However, given what has happened over the last few years and magnified by the events of the last few weeks, I strongly suspect we now need to do more to reinvigorate good voluntary pension provision. And, for that matter, to avoid huge opt-outs from Personal Accounts and quality schemes come 2012.

“There is a strong case for looking again at the incentives which might encourage both individuals and employers working in the private sector to enter into or promote pension arrangements. This sounds like special pleading compared with other savings - but pensions are so special. Without the right incentives, why would a 25 year old put money into a pension scheme which he will not see again until he retires, perhaps in 40 or 45 year’s time?

“Unpopular as this might be with the higher paid, we might need to look at whether higher rate pension reliefs are capped to part-finance this, but – more important – all of us, including our politicians, need to recover our confidence that financial incentives can and should be used to shape and drive desirable outcomes.

“No doubt, the Treasury will say this is ‘unaffordable’. But recent events have shown that money can be found when the need is there and pensions that properly support people in retirement are as vital, if not more vital, than many other calls on spending.”

A copy of Keith Barton’s speech to the ACA Annual Dinner is attached.

For further comment:

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Note to Editors:

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1650 members working in around 80 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World.

ACA ANNUAL DINNER – 27 NOVEMBER 2008

SPEECH BY KEITH BARTON, CHAIRMAN, ASSOCIATION OF CONSULTING ACTUARIES (ACA)

The pension trends we see and the harsh realities that unfold day by day are deeply worrying to those of us who have spent our professional lives in building and supporting retirement provision and who know the importance of pension saving in helping to ensure dignity and comfort for the most vulnerable members of society.

Only last week we saw research from a credible source – a respected life company – suggesting that somewhere between 1 and 1.5 million individuals are likely to stop contributing to their personal or occupational pensions over the next 2 years. The views were sought recently, but ahead of what I suspect will be even more difficult economic conditions next year. I fear this number could be an under-estimate.

Over the next year or so many consumers – rightly – will be addressing their over-borrowing problems in a climate of often declining living standards. So, rather than more individuals saving in pension schemes, we may well see a further sharp slide in the numbers saving for retirement with economic conditions making their return to pension saving very slow, if at all.

This comes on top of the serious decline all of us have witnessed in private sector occupational provision over recent years. In 1967, we had over 8 million private sector employees in company schemes. Today, despite a growing working population, we have fewer than half that number in any form of company scheme. Of these, fewer than 3 million are members of defined benefit schemes and, on figures we canvassed from consulting firms, fewer than 1 million of these are in schemes open to new entrants – a figure declining by the day.

Defined contribution schemes have taken up some of the slack, but still these schemes are only nudging around 1 million employees in membership. I suspect too, that it is here that many

individuals will give up contributing over the next couple of years, disillusioned by the severe losses in asset values over a short period and the lack of predictability inherent in such arrangements.

We all know that this sorry state of pension decline is not down to one simple explanation and there are complex and interacting factors at play. But, the simple truth is that we have ended up in a situation where the majority of employees and employers no longer seem to be convinced in the merit and value of pension savings. The period of decline in pensions has coincided almost exactly with the credit boom – the prevailing culture being one of ‘borrow, borrow, borrow’ rather than ‘save, save, save’ - and maybe now that that this bubble has burst there will be time to reflect on the need for retirement savings and to create attractive and sustainable pension models for the future. Out of adversity opportunity and creativity emerge.

So what can we do set the background which will encourage this creativity?

Firstly, we need better certainty and realism as to the level of benefits which the state can and should provide to retirees, including the future of means testing. I fail to see how we can advise the lower-paid on taking up either existing private pensions or personal accounts without some better forward consensus between the parties on the future of means-testing. What is the policy – is it to reduce means-testing over the longer-term or to increase the targeting of benefits?

Secondly, we must remember that personal accounts, although a welcome step in helping many individuals save with their employer's help, should be seen as the pension scheme of last resort for those employees unable to access better arrangements. We must be on guard to ensure that they do not become the scheme of choice for employers and employees and lead to a levelling down from good existing arrangements. Indeed, our own 2008 Smaller Firms Pension survey found 31% of smaller firms might be tempted to reduce benefits or abandon existing pension schemes as a result of Personal Accounts – and this was before the fallout from the credit crisis had got started.

The objective of adding between 4 to 7 million new pension savers is laudable and is to be encouraged, but the reality is that the levels of retirement income which personal accounts will provide are unlikely to lead to a prosperous retirement for the majority of members. This might therefore lead to some disillusionment and opt-outs even where there are no better alternatives. Introducing personal accounts against a likely backcloth of rising taxes also seems just about the worse time to ensure a decent take-up.

So if State benefits are inevitably going to be limited, and personal accounts will at best produce modest benefits, where will future generations find their retirement income?

The popular belief amongst many that that their house would meet the need, by downsizing at retirement or through equity release, sounds a bit hollow in the current environment.

The reality is that good employer sponsored pensions schemes are the best way for employees to save for retirement. My hope is that the current economic situation will bring about this realisation and acceptance that different thinking from that which led us into the current situation is needed to take us away from it.

A pre requisite, of course for innovation is the right regulatory environment. As most of you will know, that ACA has been advocating over these last 3 years that pension legislation should be updated to permit new risk sharing pension design options, rather than frustrate their development. Eventually, this summer, alongside the efforts of others, we achieved a consultation paper on that very topic in response to amendments we proposed to this year's Pensions Bill. But – alas – we still await the outcome and we fear the worse.

The opportunity for reform has been lost this year and, increasingly, we wonder about next year too.

Unless legal changes are made soon, the vast majority – thousands of pages of pension legislation and regulation – will be relevant to an increasingly small number of pension schemes covering fewer than 10% of the workforce. One cannot help feeling that much of our pension energy now seems more about managing the slow death of quality schemes. It is not about building a framework to promote the growth of new quality schemes. That is not far short of a disgrace.

I would hope over the next year employer, trade and pension bodies could come together to do more to say to Government that this approach cannot be allowed to continue. If it does, quite quickly the incidence of means testing is likely to increase, not decrease, with all the disincentives to save at lower incomes magnified.

So, what can we do to promote quality pension provision above the basic minimum?

First, we need to legislate quickly to allow new workplace pension designs to be implemented. That framework needs to be in place so employers have choices. That will allow some employers who are going to close existing final salary arrangements, come what may, to move to less costly, but still high quality, provision they can afford into the future. Risks would be shared rather than falling completely on individuals often ill-equipped to deal with such matters. These types of schemes could equally apply to public sector employees –and what a great signal this would give to private sector employers – rather than replacing the gold plated public sector final salary schemes with simply defined contribution schemes, as some have suggested.

Second, and I think this is a big ask. More private sector employers need to be convinced, and here all of us have a part to play, that sponsoring a "better - than -minimum – standard" pension scheme is good all round – good for employees and their families, good for employee relations, good for the business, and good for society over the longer-term. This is a mission where all of us can join together even if we have differences over the detail of what future provision we favour.

However, given what has happened over the last few years and magnified by the events of the last few weeks, I strongly suspect we now need to do more to reinvigorate good voluntary pension provision. And, for that matter, to avoid huge opt-outs from Personal Accounts and quality schemes come 2012.

There is a strong case for looking again at the incentives which might encourage both individuals and employers working in the private sector to enter into or promote pension arrangements. This sounds like special pleading compared with other savings - but pensions are so special. Without the right incentives, why would a 25 year old put money into a pension scheme which he will not see again until he retires, perhaps in 40 or 45 year's time?

Unpopular as this might be with the higher paid, we might need to look at whether higher rate pension reliefs are capped to part-finance this, but – more important – all of us (including our politicians) need to recover our confidence that financial incentives can and should be used to shape and drive desirable outcomes. At least we're fortunate in having experiences of what can go wrong to learn from.

No doubt, the Treasury will say this is 'unaffordable'. But recent events have shown that money can be found when the need is there and pensions that properly support people in their retirement are as vital, if not more vital, than many other calls on spending.

Of course, there is an alternative, which some may prefer.

If we do not work by incentives, then, unless we want to condemn future generations of retirees to an unhappy retirement, this must inexorably lead to the rough justice of compulsory pension saving by all – employers and individuals alike –with a 'one size fits no-one' outcome.

I know which I would prefer.